

Message Text

SECRET

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ACTION EUR-08

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S E C R E T LISBON 0573

LIMDIS

PASS TREASURY FOR UNDER SECRETARY YEO AND SYVRUD

E.O. 11652: GDS
TAGS: EFIN, ECON, PO
SUBJECT: FINANCIAL ASSISTANCE FOR PORTUGAL

REF: LISBON 0499

1. ECONOMIC COUNSELOR AND I MET WITH MINISTER OF FINANCE MEDINA CARREIRA AND BANK OF PORTUGAL GOVERNOR SILVA LOPES MORNING OF JANUARY 20 TO FOLLOW UP ON OUR CONVERSATION REPORTED REFTEL. I STRESSED THE IMPORTANCE OF GOP PROCEEDING QUICKLY TO SIGNING ACCORD REACHED DECEMBER 31 AND STRESSED THAT CONTINUED DELAYS WERE CREATING IMPRESSION THAT GOP WAS SEEKING TO AVOID ITS ECONOMIC POLICY COMMITMENTS. I ALSO NOTED THAT PRESIDENT FORD HAD SUBMITTED SUPPLEMENTAL BUDGET MESSAGE TO CONGRESS FOR USG CONTRIBUTION OF \$300 MILLION TO CONSORTIUM.

2. MINISTER OF FINANCE STRESSED REPEATEDLY THAT GOP WAS FULLY COMMITTED TO IMPLEMENTING ITS POLICY COMMITMENTS. INDEED, HE EMPHASIZED, GOP WOULD SOON TAKE SEVERAL VERY SIGNIFICANT MEASURES WHICH WOULD CLEARLY INDICATE AN ACCELERATED PACE OF ACTIVITY. THE BOLDNESS OF THESE MEASURES, HE ASSERTED, WOULD EVEN SURPRISE US. THE PRINCIPAL PROBLEM

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ON THE POLICY SIDE PREOCCUPYING PORTUGUESE AUTHORITIES WAS TIMING FOR A DEVALUATION. HE ADMITTED, FOR THE FIRST TIME, THAT GOP HAS ACCEPTED NECESSITY OF DEVALUATION. HE EMPHASIZED, HOWEVER, THAT ADDITIONAL PREPARATORY MEASURES ARE STILL NEEDED BEFORE GOP CAN FORMALLY COMMIT ITSELF TO DEVALUING THE ESCUDO.

3. MEDINA CARREIRA AGAIN CONCURRED THAT DRAFT AGREEMENT SUBMITTED BY TREASURY ACCURATELY REFLECTED TECHNICAL AGREEMENT REACHED ON DECEMBER 31. PORTUGUESE AUTHORITIES, ASIDE FROM A FEW MINOR CHANGES, FELT THAT THEY HAD NO PROBLEM WITH TECHNICAL ASPECTS OF THE ACCORD. THEIR PROBLEMS REST SOLELY WITH A QUESTION AS TO WHETHER THE ACCORD WOULD BE FUNCTIONAL. THEIR CONTACTS WITH BANK FOR INTERNATIONAL SETTLEMENTS (BIS) INDICATED THAT THAT INSTITUTION MIGHT NOT BE WILLING TO OPERATE AS PORTUGAL'S AGENT ON THE GOLD MARKET AND THAT COMMERCIAL BANKS COULD NOT PERFORM THAT FUNCTION WITHOUT DISTURBING THE INTERNATIONAL GOLD MARKET. PORTUGUESE AUTHORITIES ARE EXTREMELY ANXIOUS, THEREFORE, TO LEARN THE RESULTS OF UNDER SECRETARY YEO'S CONTACTS WITH BIS. HIS EFFORTS, THEY FEEL, ARE ESSENTIAL TO THE OPERABILITY OF OPTIONS 3 AND 4 IN THE AGREEMENT. OPTION 4 IS PARTICULARLY IMPORTANT. IF THOSE OPTIONS ARE NOT FUNCTIONAL, GOP AUTHORITIES FEAR THAT AGREEMENT MAY NOT PROVE TO BE USEFUL. THEY DO NOT FEEL THAT, IF THE AGREEMENT PROVES TO BE NONFUNCTIONAL, THEY WOULD BE ABLE TO DEFEND IT WITH THE PUBLIC.

4. PORTUGUESE AUTHORITIES INDICATED THEY WOULD PRESS THEIR NEGOTIATIONS WITH THE IMF FOR AT LEAST A FIRST CREDIT TRANCHE AGREEMENT. THEY STATED, HOWEVER, THAT THEY WOULD APPRECIATE ANY HELP USG AUTHORITIES MIGHT BE ABLE TO RENDER IN SENSITIZING IMF TO PORTUGAL'S POLITICAL PROBLEMS.

5. COMMENT: I AM CONVINCED THAT PORTUGUESE ARE NOT
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ATTEMPTING TO BACK TRACK ON THEIR POLICY COMMITMENTS TO US. RATHER, I FEEL THEY PLAN TO PROCEED WITH ECONOMIC REFORMS, BUT ARE FEARFUL THAT THEY WILL NOT HAVE THE POSITIVE COUNTERBALANCE THAT WAS IMPLICIT IN THE LOAN AGREEMENT. THEY ARE NOT ATTEMPTING TO UNDERMINE OUR AGREEMENT, BUT RATHER TO INSURE THAT IT WILL BE AN EFFECTIVE, USEFUL INSTRUMENT.
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